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INTELLIGENCE PERTINENT TO THE DISCUSSION OF THE CHINA DIFFERENTIAL.

Extract from RIE 11-55, Chinese Communist Capabilities and Probable Courses of Action Through 1960 -- January 1956

Although increased trade with the Free World would almost certainly develop if present trade controls were relaxed to the level maintained with the European Bloc, such increases would probably not constitute a substantial reorientation of Chinese Communist trade. Such relaxation of trade controls, if it included those of the US, would not greatly increase Communist China's ability to secure commodities not now available through transshipment but would permit an increase in exports to markets not now open and would reduce import costs on certain items. We believe that such a relaxation of controls could increase Communist China's annual import capabilities by about 150 million dollars, of which about two-thirds would be due to the reduction of US controls. The total of 150 million dollars is roughly equivalent to about a quarter of Communist China's imports of capital goods, including iron and steel, and about 5 to 10 percent of the adjusted value of Communist China's capital investment program in 1955. To that extent the build-up of Communist China's economic and military potential could be accelerated. There would also be a reduction in internal Bloc transport costs amounting to approximately 100 million dollars equivalent. It is impossible for us to allocate such savings as between Communist China and the other Bloc countries." (Para. 7, p. 18)

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Extract from the DCI's Briefing to the NSC, 26 April 1950

... CHINCOM controls impose added transport cost rather than denial of differential items because most may be obtained elsewhere in the Bloc or by transshipment via the Bloc. Relaxation of differential controls would increase China's import capabilities by about 125 million dollars but this figure would be reduced by about two-thirds so long as the US retains its present trade controls on Chinese Communist trade. An additional 100 million dollars in eliminating added transport cost ... would bring the total advantage to the Bloc to about 225 million dollars.

Extract from SMC 100-55, "Political Effects of a Relaxation of Controls on Trade with Communist China" -- January 1950

III. Probable Political Effects of Elimination of the CHINCOM Differential Assuming the US Consents While Maintaining Its Own Controls

Except in the ROK, Taiwan, South Vietnam, the Philippines, and Thailand, the reaction to US acceptance of a reduction in controls would vary from indifference to the issue by some nations, through general approval by others, to outright welcome by those with large trading interests. It would be interpreted as an indication of US willingness, despite serious misgivings, to accommodate its policies in some degree to those of its allies. The reduction of controls with US consent would

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... tend to submerge temporarily a broad issue between the US and other non-Communist nations which has been an irritant to our relations with our European allies. [The Deputy Director for Intelligence, the Joint Staff, and the Director of Intelligence, US Air Force, would add the following sentence to this paragraph: "On the other hand, it would be an indication to these same allies that they could in the future likewise sway US policy by their pressures and counsels." (Para. 16, p. 4)]

**COMMENT**

It should be made clear in the context of this paper that:

	<u>Millions</u>
a) International COMCON controls impose an added transport and premia price cost of . . . . .	\$15 - 40
b) US unilateral controls impose a loss of potential foreign exchange to Communist China of . . . . .	\$50
c) The international COMCON controls impose an added transport cost to the USSR and European Satellites of . . . . .	\$400 - 65
d) A total cost of about . . . . .	<u>\$450 *</u>

The ranges in a) and c) are a result of not knowing the precise manner in which certain price premia and transshipment costs are computed.

\* Total does not include \$15 millions in potential foreign exchange available to China from Japan were China willing to ship iron ore and coal to Japan.

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**INTELLIGENCE STATISTICS RELATING TO THE  
CHINA DIFFERENTIAL**

(Units: Million Dollars)

Impact of U.S. Unilateral Controls on Communist China

U.S. control over remittances to Communist China

U.S. control over imports from Communist China

Handwritten calculation: 330 + 60 = 390, with a 75 written below it.

Impact of International Multilateral Controls  
(CHINCOM) on Communist China

Additional transport cost and price premia  
to Communist China involved in purchase of  
CHINCOM items from the Soviet Bloc

35\*

Impact of U.S. Unilateral and International Multi-  
lateral Controls on Communist China

125\*

Impact of International Multilateral Controls  
(CHINCOM) against Communist China upon the USSR  
and the European Satellites

Increased transport costs to the USSR

60

Increased transport costs to the European Satellites

5\*

65\*

Impact on the Sino-Soviet Bloc of U.S. Unilateral and  
International Multilateral (CHINCOM) Controls against  
Communist China

190\*

\* See comment and notes previous page.